

BUTLER COUNTY
SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2005

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Butler County School District
Morgantown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Butler County School District** (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash

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flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated September 16, 2005 on our consideration of **Butler County School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 52 through 55 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

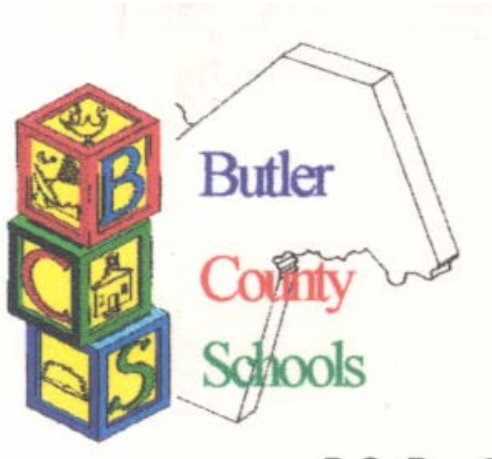
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Butler County School District's** basic financial statements. The combining and individual nonmajor fund financial statements and other additional information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the **Butler County School District**. The combining and individual nonmajor fund financial statements, other additional information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Holland CPAs, PSC

Bowling Green, Kentucky
September 16, 2005

Required Supplementary Information

Management's Discussion and Analysis



**BUTLER COUNTY SCHOOL DISTRICT
MORGANTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)
YEAR ENDED JUNE 30, 2005**

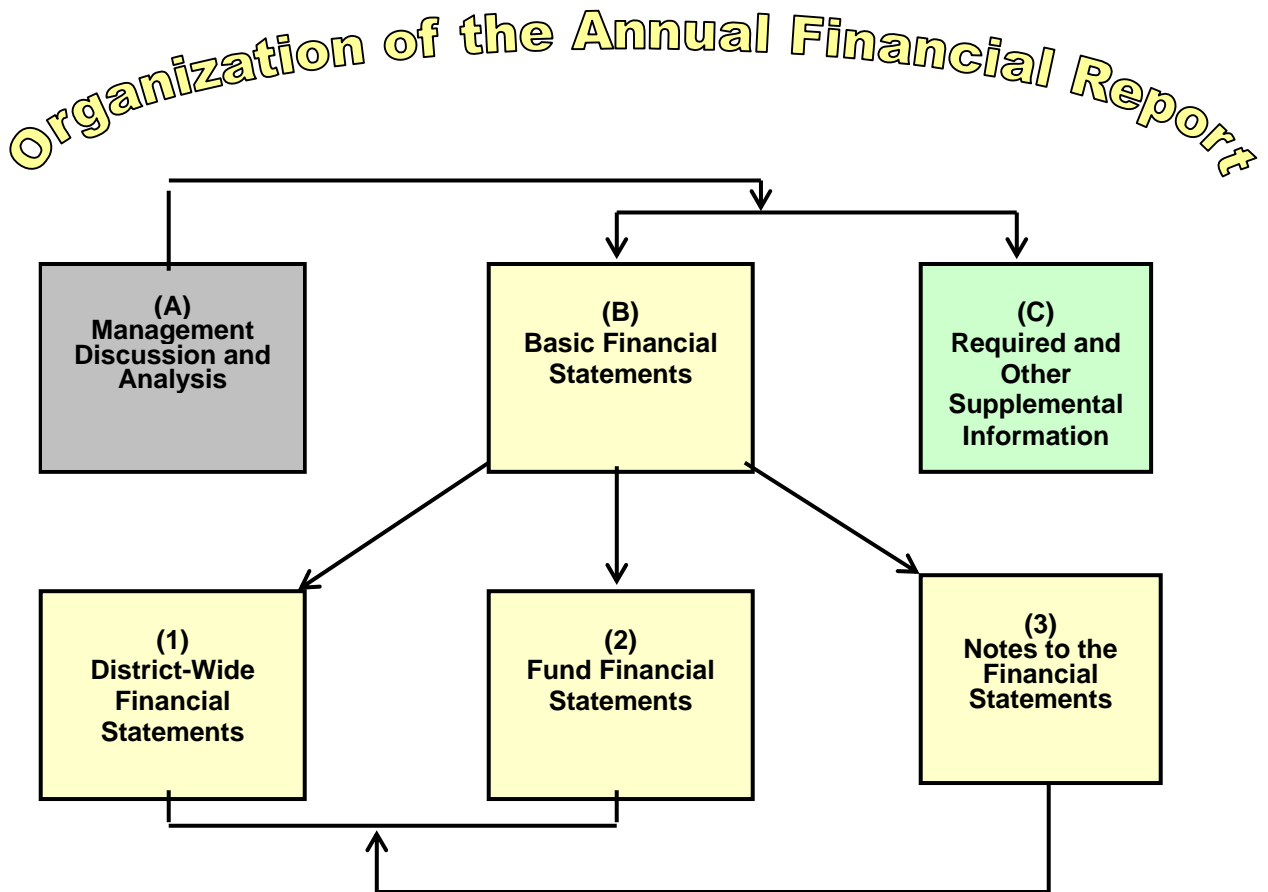
As management of the Butler County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning General Fund balance for the District was \$1,965,981. The ending General Fund balance was \$1,937,011.
- The beginning Special Revenue Fund balance for the District was \$1,382. The ending Special Revenue Fund balance was \$28,581. The beginning balance for Other Governmental Funds was \$191,324. The ending balance for Other Governmental Funds was \$247,189. The beginning balance of the Construction Fund was \$7,213,932. The ending balance for the Construction Fund was \$1,514,713. The major decrease in the Construction Fund balance is due to the substantial completion of the new North Butler Elementary.
- Bonds were issued for the district to renovate the Butler County Education Complex consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The issuance of these bonds did not cause the district's long term debt to increase due to the fact that these bonds were QZAB bonds. QZAB bonds require the purchase of a security, in this case \$244,356 worth of U.S. government securities, which will grow and pay the bonds in full at the end of their term.
- Also, consistent with the district's long-range facilities plan, the District finished the project of reducing the number of elementary school centers from four to two by completing a new center to replace two existing ones. This should have a positive impact on district finances by reducing the recurring costs by approximately \$350,000 to \$400,000.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Butler County School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis (this section), (B) the basic financial statements and notes, and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: (1) district-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.



The District-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during the current fiscal year?” The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky’s SEEK funding formula and its adjustments, the School District’s property tax base, required educational programs and other factors.

In the Statement of Net Assets and the Statements of Activities, the School District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the School District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District’s food service is reported as business activities. These activities are funded through fees, federal grants, and federal commodities.

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$15,238,639 as of June 30, 2005. This was an increase of \$381,683 over the previous year.

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The amount of capital assets, net related of debt was \$13,537,356 (an increase of \$243,386 over the previous year). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Reporting the School District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds are reported as fiduciary funds. The only proprietary fund is the school food fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Butler County School District are the general fund, special revenue (grants), and the construction fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The only proprietary fund is our food service operations.

Fiduciary Funds – The schools' activity funds (or agency funds) is the District's only fiduciary fund. The schools' activity fund cash balances at year-end totaled \$145,421 (a decrease of \$16,443 from the previous year).

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets for the period ending June 30, 2004 and June 30, 2005

| | Governmental Activities | | Proprietary Business-Type Activities | | District Total | | Total District Percentage Change |
|--|-------------------------|---------------------|--------------------------------------|------------------|---------------------|---------------------|----------------------------------|
| | FY2004 | FY2005 | FY 2004 | FY 2005 | FY 2004 | FY 2005 | 2004-2005 |
| Current and Other Assets | \$9,697,281 | \$3,983,403 | \$142,156 | \$224,776 | \$9,839,437 | \$4,208,179 | -57.23% |
| Capital Assets | \$25,543,871 | \$31,106,593 | \$57,346 | \$44,224 | \$25,601,217 | \$31,150,817 | 21.68% |
| Total Assets | \$35,241,152 | \$35,089,996 | \$199,502 | \$269,000 | \$35,440,654 | \$35,358,996 | - .23% |
| Long Term Liabilities | \$20,136,189 | \$19,736,673 | \$0 | \$0 | \$20,136,189 | \$19,736,673 | -1.98% |
| Other Liabilities (current) | \$434,598 | \$374,734 | \$12,911 | \$8,950 | \$447,509 | \$383,684 | -14.26% |
| Total Liabilities | \$20,570,787 | \$20,111,407 | \$12,911 | \$8,950 | \$20,583,698 | \$20,120,357 | -2.25% |
| Net Assets | | | | | | | |
| Investment in Capital Assets (net of Debt) | \$13,236,624 | \$13,493,132 | \$57,346 | \$44,224 | \$13,293,970 | \$13,537,356 | 1.83% |
| Restricted | \$111,179 | \$116,219 | \$0 | \$0 | \$111,179 | \$116,219 | 4.53% |
| Unrestricted Fund | \$1,322,562 | \$1,369,238 | \$129,245 | \$215,826 | \$1,451,807 | \$1,585,064 | 9.18% |
| Total Net Assets | \$14,670,365 | \$14,978,589 | \$186,591 | \$260,050 | \$14,856,956 | \$15,238,639 | 2.57% |

Changes in Net Assets for June 30, 2004 and June 30, 2005

| Revenues | Governmental Activities | | Proprietary Business-Type Activities | | District Total | | District Total Percentage Change |
|------------------------------------|-------------------------|---------------------|--------------------------------------|--------------------|---------------------|---------------------|----------------------------------|
| | FY2004 | FY2005 | FY2004 | FY2005 | FY2004 | FY2005 | 2004-2005 |
| Program Revenues | | | | | | | |
| Charges for Services | \$19,415 | \$17,031 | \$332,886 | \$339,034 | \$352,301 | \$356,065 | 1.1% |
| Operating Grants and Contributions | \$2,104,983 | \$2,333,445 | \$740,939 | \$854,040 | \$2,845,922 | \$3,187,485 | 12.0% |
| Capital Grants and Contributions | \$1,051,577 | \$1,542,362 | | | \$1,051,577 | \$1,542,362 | 46.7% |
| General Revenue | | | | | | | |
| Taxes | | | | | | | |
| Property Tax | \$1,273,076 | \$1,302,800 | | | \$1,273,076 | \$1,302,800 | 2.3% |
| Motor Vehicle Tax | \$214,119 | \$224,269 | | | \$214,119 | \$224,269 | 4.7% |
| Utility Tax | \$698,333 | \$560,753 | | | \$698,333 | \$560,753 | -19.7% |
| Other Tax | \$1,640 | \$7,136 | | | \$1,640 | \$7,136 | 335.1% |
| State Aid | \$10,051,133 | \$10,719,923 | | | \$10,051,133 | \$10,719,923 | 6.7% |
| Investment Earnings | \$58,210 | \$130,013 | \$174 | \$842 | \$58,384 | \$130,855 | 124.1% |
| Other Revenue | \$68,883 | \$31,296 | | | \$68,883 | \$31,296 | -54.6% |
| Special item - donated building | \$2,673,318 | \$0 | | | \$2,673,318 | \$0 | N/A |
| Total Revenues | \$18,214,687 | \$16,869,028 | \$1,073,999 | \$1,193,916 | \$19,288,686 | \$18,062,944 | -6.4% |

Expenses

| | Governmental Activities | | Proprietary Business-Type Activities | | District Total | | District Total Percentage Change |
|--------------------------------|-------------------------|--------------|--------------------------------------|-------------|----------------|--------------|----------------------------------|
| | FY2004 | FY2005 | FY2004 | FY2005 | FY2004 | FY2005 | 2004-2005 |
| Instruction | \$9,340,575 | \$10,093,603 | | | \$9,340,575 | \$10,093,603 | 8.1% |
| Support Services | | | | | | | |
| Student Support Services | \$572,466 | \$583,619 | | | \$572,466 | \$583,619 | 1.9% |
| Instructional Staff | \$554,625 | \$484,160 | | | \$554,625 | \$484,160 | -12.7% |
| District Administration | \$469,371 | \$660,743 | | | \$469,371 | \$660,743 | 40.8% |
| School Administration | \$741,751 | \$731,685 | | | \$741,751 | \$731,685 | -1.4% |
| Business Administration | \$70,880 | \$206,105 | | | \$70,880 | \$206,105 | 190.8% |
| Plant Operations & Maintenance | \$1,160,532 | \$1,270,810 | | | \$1,160,532 | \$1,270,810 | 9.5% |
| Student Transportation | \$1,072,626 | \$1,267,744 | | | \$1,072,626 | \$1,267,744 | 18.2% |
| Central Office | \$39,501 | \$0 | | | \$39,501 | \$0 | -100.0% |
| Other | \$303,032 | \$321,196 | | | \$303,032 | \$321,196 | 6.0% |
| Food Service Operations | | | | | | | |
| Capital Outlay | | | | | | | |
| Interest on Long-Term Debt | \$585,797 | \$858,638 | | | \$585,797 | \$858,638 | 46.6% |
| Bond Issuance Cost | | | | | | \$0 | |
| Loss of disposal of assets | | \$82,501 | | | | \$82,501 | |
| Food Service | | | \$1,001,359 | \$1,120,457 | \$1,001,359 | \$1,120,457 | 11.9% |
| Total Expenses | \$14,911,156 | \$16,560,804 | \$1,001,359 | \$1,120,457 | \$15,912,515 | \$17,681,261 | 11.1% |

- The District's total revenues were \$18,062,944 and the total expenses were \$17,681,261. Revenues exceeded expenses by \$381,683.
- State revenues accounted for 59% and local taxes accounted for 12% of the revenue.
- Instruction was the major expense category and accounted for 57% of the expense.
- Food service revenues exceeded expenses by \$73,459.

Financial Analysis of the District Funds

| Changes in End-of-Year Fund Balances | FY 2004 | FY 2005 | Amount of Change | % Change |
|---|-------------|-------------|---------------------|----------|
| General Fund | \$1,965,981 | \$1,937,011 | (\$28,970) | -1% |
| Special Revenue Fund | \$1,382 | \$28,581 | \$27,199 | 1968% |
| Construction Fund | \$7,213,932 | \$1,514,713 | (\$5,699,219) | -79% |
| Other Governmental Funds | \$191,324 | \$247,189 | \$55,865 | 29% |
| School Food Fund | \$186,591 | \$260,050 | \$73,459 | 39% |
| Total | \$9,559,210 | \$3,987,544 | (\$5,571,666) | -58% |

- The General Fund's fund balance showed a negative change of \$27,199. This was primarily the result of the unfunded raised that the state mandated and the General Fund portion of the renovation of the Butler County Learning Center in the amount of \$160,805.00. Taking away both of these uses of General Fund resources would have created a substantial gain in a normal fiscal year.
- The Special Revenue fund had a positive change of \$27,199. The principal reason for the difference is that in FY 2002 the technology fund was transferred to the special revenue fund. This fund balance will continue to decrease until it is \$0. This is because all other Fund 2 projects must be zero'd out at end-of-year. The only fund left in the Special Revenue fund is technology at year end.
- The Construction fund shows a decrease in fund balance of \$5,669,219 due to revenue from the North Butler Elementary construction project remaining in that fund from last fiscal year and at the end of this fiscal year the project was substantially complete with most funds paid out.
- Other Governmental funds show an increase of \$55,865.
- The School Food Fund's fund balance had a \$73,459 increase due to increased revenues from participation during, before and after school and the close monitoring of expenses.

Comments on General Fund and Special Revenue Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2005, net of interfund transfers, were \$12,857,427. This is \$2,648,736 more than was budgeted in the final working budget. The primary reason for the difference is that GAAP requires our audit to include state contributions to our employee's retirement, health and life insurance. This is referred to as "On-Behalf" revenue. The District does not get these funds directly and it is not included in our budget. However, it must be in the District's audit. This "On-Behalf" contribution was \$2,078,029 for 2004-2005. The District budgets for its local revenues (taxes, earned interest, and tuition) in a conservative manner. Thus, local revenues were higher than budgeted (\$570,707).
- Expenditures were also less than budgeted primarily because of the inclusion of the unspent contingency funds in the amount of \$1,026,659.

- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual fund balance being \$28,970 less than the prior year. The primary reason for this is the unfunded raise the district was required to give its employees and the spending of \$160,805 of the General Fund's money to partially fund the renovation of the Butler County Educational Complex, both of which are one time occurrences.
- The Special Revenue fund budget compared to actual will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not completed at the end of the previous year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2005, the district had invested \$31,150,817 in capital assets, net of accumulated depreciation. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total initial cost of assets was \$41,481,956 with accumulated depreciation of \$10,331,139. The district had \$6,651,780 in construction in progress on the new North Butler Elementary School. The project's total cost will be \$7,720,000 when completed.

SUMMARY OF CAPITAL ASSETS

(net of depreciation)

| | Governmental Activities | | Business-Type Activities | | District Total | |
|--------------------------|-------------------------|---------------------|--------------------------|-----------------|---------------------|---------------------|
| | FY2004 | FY2005 | FY2004 | FY2005 | FY2004 | FY2005 |
| Land and improvements | \$701,992 | \$630,384 | \$0 | \$0 | \$701,992 | \$630,384 |
| Construction in progress | \$424,136 | \$6,651,780 | \$0 | \$0 | \$424,136 | \$6,651,780 |
| Buildings | \$22,989,770 | \$22,294,508 | \$0 | \$0 | \$22,989,770 | \$22,294,508 |
| Equipment & furniture | 1,427,973 | 1,529,921 | \$57,346 | \$44,224 | \$1,485,319 | \$1,574,145 |
| Total Assets | \$25,543,871 | \$31,106,593 | \$57,346 | \$44,224 | \$25,601,217 | \$31,150,817 |

Long-Term Debt

At year-end the district had \$19.37 million in general obligation bonds outstanding. This was a decrease of 2 % over last year. The decrease was due to the normal payment of bonds each year.

BUDGETARY IMPLICATIONS

It is extremely important that the district continue to budget very conservatively. The district receives approximate 59% of its new general fund revenue each year through the state funding formula (SEEK). On occasions, there have been adjustments that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 12% of the new general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth-seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year. The district has an ending fund balance of \$1,937,011 as a beginning balance for next year.

By law, the budget must have a minimum 3 % contingency. The beginning fund balance for beginning the fiscal year is \$1,937,011 well above the minimum state requirement for the following reasons. Significant Board action that impacts finances include a 3% pay raise for all employees, additional spending on a new roof for the cafeteria at Butler County Middle School and general fund matching dollars for other grants. Many other grants are funded on a reimbursement basis. This requires the district to pay the expenditures of the grant and then apply for reimbursement. At year-end, the District's General Fund was due \$207,480 from the special revenue grant fund. The district must continue to monitor the grants constantly and get reimbursements in a timely manner. The district must also maintain a significant cash balance in order to pay the expenditures of these grants while waiting for reimbursements.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges for Butler County Schools are to continue to provide modern facilities, ensure student learning, and maintain the average daily attendance count.

In keeping with our district facilities plan we have reduced the number of elementary centers from four to two. We completed the building of a new center that in essence, replaced two older buildings. The older elementary will be modernized. The modernization has already started to take place with the upgrade of the facility's heating and cooling system along with the facility's electrical system, which has made the facility one of our most efficient. Continued modernization took place this year, which included the upgrade of restroom facilities. Future modernization will include new classrooms, a new gym and media center and the improvement of traffic flow and the facility as a whole. In the upcoming year a new vocational school will be added at the Butler County Education Complex. Adhering to the facilities plan is essential in providing excellent learning environments for our students.

The second challenge mentioned above is to ensure that all students learn at high level. Maintaining and improving student achievement is essential to the future well being of our students and our community. Butler County Schools, in cooperation with parents and community, must ensure that all students demonstrate proficient academic performance, as well as positive social and emotional development and growth.

The third challenge mentioned is preserving the average daily attendance count. The district receives funding through the SEEK formula based on this count. Past history reflects a decrease in enrollment or at best maintaining the previous year's count. Therefore, growth within the district is limited. It is vital that our schools have high attendance percentages and that parents and students continue to choose Butler County Schools when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing the district's challenge.

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information they should be directed to Eric Elms, Director of Financial Services (270) 526-5624, PO Box 339, 203 North Tyler St., Morgantown, KY, 42261 or e-mail at eelms@butler.k12.ky.us.

Basic Financial Statements

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
|--------------------------------------|------------------------------------|-------------------------------------|-------------------|
| ASSETS | | | |
| Cash | \$ 731,941 | \$ 135,349 | \$ 867,290 |
| Investments | 2,735,635 | 0 | 2,735,635 |
| Accounts receivable: | | | |
| Interest..... | 8,856 | 0 | 8,856 |
| Accounts..... | 88,259 | 0 | 88,259 |
| Intergovernmental..... | 328,029 | 60,189 | 388,218 |
| Inventory | 0 | 29,238 | 29,238 |
| Bond issuance costs..... | 98,816 | 0 | 98,816 |
| Less: accumulated amortization | (8,133) | 0 | (8,133) |
| Nondepreciated capital assets..... | 6,967,886 | 0 | 6,967,886 |
| Depreciable capital assets..... | 34,124,590 | 389,480 | 34,514,070 |
| Less: accumulated depreciation | (9,985,883) | (345,256) | (10,331,139) |
| TOTAL ASSETS | 35,089,996 | 269,000 | 35,358,996 |
| LIABILITIES | | | |
| Accounts payable | 63,787 | 8,950 | 72,737 |
| Accrued liabilities | 22,957 | 0 | 22,957 |
| Deferred revenue..... | 78,482 | 0 | 78,482 |
| Accrued interest..... | 209,508 | 0 | 209,508 |
| Long-term obligations: | | | |
| Due within one year: | | | |
| Outstanding bonds..... | 1,118,645 | 0 | 1,118,645 |
| Compensated absences | 60,000 | 0 | 60,000 |
| Due beyond one year: | | | |
| Outstanding bonds..... | 18,009,529 | 0 | 18,009,529 |
| Compensated absences | 548,499 | 0 | 548,499 |
| TOTAL LIABILITIES | 20,111,407 | 8,950 | 20,120,357 |

| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
|---|----------------------------|-----------------------------|----------------------|
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 13,493,132 | 44,224 | 13,537,356 |
| Restricted for: | | | |
| SFCC..... | 114,577 | 0 | 114,577 |
| Debt service | 1,642 | 0 | 1,642 |
| Unrestricted | 1,369,238 | 215,826 | 1,585,064 |
| TOTAL NET ASSETS | \$ 14,978,589 | \$ 260,050 | \$ 15,238,639 |

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

| | EXPENSES | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | |
|--|---------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
| GOVERNMENTAL ACTIVITIES | | | | | | | |
| Instruction..... | \$ 10,093,603 | \$ 17,031 | \$ 1,570,074 | \$ 0 | \$ (8,506,498) | \$ 0 | \$ (8,506,498) |
| Support services: | | | | | | | |
| Student | 583,619 | 0 | 186,913 | 0 | (396,706) | 0 | (396,706) |
| Instructional staff..... | 484,160 | 0 | 206,328 | 0 | (277,832) | 0 | (277,832) |
| District administration..... | 660,743 | 0 | 21,234 | 0 | (639,509) | 0 | (639,509) |
| School administration..... | 731,685 | 0 | 337 | 0 | (731,348) | 0 | (731,348) |
| Business | 206,105 | 0 | 10,160 | 0 | (195,945) | 0 | (195,945) |
| Plant operations and maintenance | 1,270,810 | 0 | 0 | 0 | (1,270,810) | 0 | (1,270,810) |
| Student transportation..... | 1,267,744 | 0 | 39,234 | 0 | (1,228,510) | 0 | (1,228,510) |
| Other | 321,196 | 0 | 299,165 | 0 | (22,031) | 0 | (22,031) |
| Facilities acquisition and construction..... | 0 | 0 | 0 | 583,696 | 583,696 | 0 | 583,696 |
| Interest on long-term debt | 858,638 | 0 | 0 | 958,666 | 100,028 | 0 | 100,028 |
| Loss on sale/disposal of assets..... | 82,501 | 0 | 0 | 0 | (82,501) | 0 | (82,501) |
| TOTAL GOVERNMENTAL ACTIVITIES | 16,560,804 | 17,031 | 2,333,445 | 1,542,362 | (12,667,966) | 0 | (12,667,966) |

BUSINESS-TYPE ACTIVITIES

| | | | | | | | |
|---|----------------------|-------------------|---------------------|---------------------|---------------------|---------------|---------------------|
| Food services | 1,120,457 | 339,034 | 854,040 | 0 | 0 | 72,617 | 72,617 |
| TOTAL BUSINESS-TYPE ACTIVITIES | 1,120,457 | 339,034 | 854,040 | 0 | 0 | 72,617 | 72,617 |
| TOTAL SCHOOL DISTRICT | \$ 17,681,261 | \$ 356,065 | \$ 3,187,485 | \$ 1,542,362 | (12,667,966) | 72,617 | (12,595,349) |

GENERAL REVENUES

Taxes:

| | | | |
|---------------------------|------------|-----|------------|
| Property | 1,302,800 | 0 | 1,302,800 |
| Motor vehicle..... | 224,269 | 0 | 224,269 |
| Utilities | 560,753 | 0 | 560,753 |
| Unmined minerals | 7,136 | 0 | 7,136 |
| State aid | 10,719,923 | 0 | 10,719,923 |
| Investment earnings | 130,013 | 842 | 130,855 |
| Other..... | 31,296 | 0 | 31,296 |

| | | | |
|-------------------------------|-------------------|------------|-------------------|
| TOTAL GENERAL REVENUES | 12,976,190 | 842 | 12,977,032 |
|-------------------------------|-------------------|------------|-------------------|

| | | | |
|----------------------------------|----------------|---------------|----------------|
| CHANGE IN NET ASSETS..... | 308,224 | 73,459 | 381,683 |
|----------------------------------|----------------|---------------|----------------|

| | | | |
|--|-------------------|----------------|-------------------|
| NET ASSETS – BEGINNING OF YEAR..... | 14,670,365 | 186,591 | 14,856,956 |
|--|-------------------|----------------|-------------------|

| | | | |
|---------------------------------|----------------------|-------------------|----------------------|
| NET ASSETS – END OF YEAR | \$ 14,978,589 | \$ 260,050 | \$ 15,238,639 |
|---------------------------------|----------------------|-------------------|----------------------|

BUTLER COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

| | GENERAL FUND | SPECIAL REVENUE FUND | CONSTRUCTION FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|----------------------------|---------------------|-------------------------|----------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash | \$ 266,171 | \$ 0 | \$ 217,663 | \$ 248,107 | \$ 731,941 |
| Investments..... | 1,280,638 | 0 | 1,454,997 | 0 | 2,735,635 |
| Accounts receivable: | | | | | |
| Interest | 7,944 | 0 | 912 | 0 | 8,856 |
| Accounts..... | 88,259 | 0 | 0 | 0 | 88,259 |
| Intergovernmental | 0 | 328,029 | 0 | 0 | 328,029 |
| Due from other funds | 357,230 | 0 | 0 | 0 | 357,230 |
| TOTAL ASSETS | \$ 2,000,242 | \$ 328,029 | \$ 1,673,572 | \$ 248,107 | \$ 4,249,950 |

**LIABILITIES
AND FUND BALANCES**

LIABILITIES

| | | | | | | | | | | |
|---------------------------|----|---------------|----|----------------|----|----------------|----|------------|----|----------------|
| Accounts payable | \$ | 40,274 | \$ | 13,486 | \$ | 9,109 | \$ | 918 | \$ | 63,787 |
| Accrued liabilities | | 22,957 | | 0 | | 0 | | 0 | | 22,957 |
| Due to other funds | | 0 | | 207,480 | | 149,750 | | 0 | | 357,230 |
| Deferred revenue | | 0 | | 78,482 | | 0 | | 0 | | 78,482 |
| TOTAL LIABILITIES | | 63,231 | | 299,448 | | 158,859 | | 918 | | 522,456 |

FUND BALANCES

| | | | | | | | | | | |
|-------------------------------|--|------------------|--|---------------|--|------------------|--|----------------|--|------------------|
| Reserved for: | | | | | | | | | | |
| Capital projects | | 0 | | 0 | | 1,514,713 | | 0 | | 1,514,713 |
| SFCC | | 0 | | 0 | | 0 | | 114,577 | | 114,577 |
| Site based carryforward | | 83,666 | | 0 | | 0 | | 0 | | 83,666 |
| Retirement benefits | | 60,000 | | 0 | | 0 | | 0 | | 60,000 |
| Debt service | | 0 | | 0 | | 0 | | 1,642 | | 1,642 |
| Unreserved | | 1,793,345 | | 28,581 | | 0 | | 130,970 | | 1,952,896 |
| TOTAL FUND BALANCES | | 1,937,011 | | 28,581 | | 1,514,713 | | 247,189 | | 3,727,494 |

**TOTAL LIABILITIES AND
FUND BALANCES**

| | | | | | | | | | |
|-----------|------------------|-----------|----------------|-----------|------------------|-----------|----------------|-----------|------------------|
| \$ | 2,000,242 | \$ | 328,029 | \$ | 1,673,572 | \$ | 248,107 | \$ | 4,249,950 |
|-----------|------------------|-----------|----------------|-----------|------------------|-----------|----------------|-----------|------------------|

**BUTLER COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2005**

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 3,727,494

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds. The cost of
the assets is \$41,092,476, and the accumulated depreciation is \$9,985,883. 31,106,593

Bond issuance costs are shown as expenditures in the fund statements.
However, they are reported as assets and amortized in the statement of net
assets. Bond issuance costs at year-end amounted to. 90,683

Long-term liabilities, including bonds payable, are not due and payable in the
current period and, therefore, are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

| | |
|-------------------------------------|--------------|
| Bonds payable | (19,128,174) |
| Accrued interest on the bonds | (209,508) |
| Compensated absences | (608,499) |

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES **\$ 14,978,589**

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

| | GENERAL FUND | SPECIAL REVENUE FUND | CONSTRUCTION FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|-----------------------------------|-------------------|-------------------------|----------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | |
| From local sources: | | | | | |
| Taxes: | | | | | |
| Property | \$ 1,106,068 | \$ 0 | \$ 0 | \$ 196,732 | \$ 1,302,800 |
| Motor vehicle..... | 224,269 | 0 | 0 | 0 | 224,269 |
| Utilities | 560,753 | 0 | 0 | 0 | 560,753 |
| Unmined minerals | 7,136 | 0 | 0 | 0 | 7,136 |
| Tuition and fees | 17,031 | 0 | 0 | 0 | 17,031 |
| Earnings on investments | 53,388 | 109 | 73,118 | 3,398 | 130,013 |
| Other local revenue | 168,859 | 53,329 | 0 | 0 | 222,188 |
| Intergovernmental – state | 10,719,923 | 790,094 | 0 | 1,542,362 | 13,052,379 |
| Intergovernmental – federal | 0 | 1,490,022 | 0 | 0 | 1,490,022 |
| TOTAL REVENUES | 12,857,427 | 2,333,554 | 73,118 | 1,742,492 | 17,006,591 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Instruction | 7,759,489 | 1,570,245 | 0 | 0 | 9,329,734 |
| Support services: | | | | | |
| Student..... | 400,376 | 186,913 | 0 | 0 | 587,289 |
| Instructional staff | 276,313 | 206,328 | 0 | 0 | 482,641 |

| | | | | | |
|---|---------------------|------------------|---------------------|-------------------|---------------------|
| District administration..... | 590,215 | 21,234 | 0 | 0 | 611,449 |
| School administration..... | 721,237 | 337 | 0 | 0 | 721,574 |
| Business | 193,120 | 10,160 | 0 | 0 | 203,280 |
| Plant operations and maintenance..... | 1,250,674 | 0 | 0 | 0 | 1,250,674 |
| Student transportation..... | 1,410,482 | 39,234 | 0 | 0 | 1,449,716 |
| Other | 14,624 | 299,165 | 0 | 0 | 313,789 |
| Debt service: | | | | | |
| Principal..... | 0 | 0 | 0 | 1,042,575 | 1,042,575 |
| Interest | 0 | 0 | 0 | 822,738 | 822,738 |
| Other | 0 | 0 | 18,000 | 0 | 18,000 |
| Facilities acquisition and construction..... | 167,623 | 0 | 6,227,644 | 0 | 6,395,267 |
| TOTAL EXPENDITURES | 12,784,153 | 2,333,616 | 6,245,644 | 1,865,313 | 23,228,726 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | 73,274 | (62) | (6,172,526) | (122,821) | (6,222,135) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Bond proceeds | 321,366 | 0 | 500,000 | 0 | 821,366 |
| Payment to refunded bond escrow account | 0 | 0 | 0 | (244,356) | (244,356) |
| Operating transfers | (423,610) | 27,261 | (26,693) | 423,042 | 0 |
| TOTAL OTHER FINANCING SOURCES (USES) | (102,244) | 27,261 | 473,307 | 178,686 | 577,010 |
| NET CHANGE IN FUND BALANCES..... | (28,970) | 27,199 | (5,699,219) | 55,865 | (5,645,125) |
| FUND BALANCES – BEGINNING OF YEAR..... | 1,965,981 | 1,382 | 7,213,932 | 191,324 | 9,372,619 |
| FUND BALANCES – END OF YEAR | \$ 1,937,011 | \$ 28,581 | \$ 1,514,713 | \$ 247,189 | \$ 3,727,494 |

See accompanying notes to the financial statements.

**BUTLER COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005**

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ (5,645,125)

Amounts reported for governmental activities in the statement of activities
are different because:

| | |
|---|-----------|
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$1,016,894) exceeds capital outlays (\$6,799,680) in the period..... | 5,782,786 |
|---|-----------|

| | |
|---|-----------|
| Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented in the statement of activities. The difference between proceeds from the sale of assets and the actual gain/loss from the sale net to this amount for the year. | (220,064) |
|---|-----------|

| | |
|--|-----------|
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets..... | 1,042,575 |
|--|-----------|

| | |
|--|-----------|
| The proceeds for the issuance of bonds provide current financial resources and are reported in the fund financial statements but they are presented as liabilities in the statement of net assets..... | (821,366) |
|--|-----------|

| | |
|---|---------|
| Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred. | 169,418 |
|---|---------|

| | |
|---|-------------------|
| CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES | \$ 308,224 |
|---|-------------------|

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

| | ENTERPRISE FUND FOOD SERVICE |
|---|---|
| ASSETS | |
| CURRENT ASSETS | |
| Cash | \$ 135,349 |
| Accounts receivable: | |
| Intergovernmental | 60,189 |
| Inventory | 29,238 |
| TOTAL CURRENT ASSETS | 224,776 |
| NONCURRENT ASSETS | |
| Fixed assets – net | 44,224 |
| TOTAL ASSETS | \$ 269,000 |
| LIABILITIES AND NET ASSETS | |
| CURRENT LIABILITIES | |
| Accounts payable | \$ 8,950 |
| TOTAL CURRENT LIABILITIES | 8,950 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 44,224 |
| Unrestricted | 215,826 |
| TOTAL NET ASSETS | 260,050 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 269,000 |

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

| | ENTERPRISE FUND FOOD SERVICE |
|---|---|
| OPERATING REVENUES | |
| Lunchroom sales..... | \$ 339,034 |
| TOTAL OPERATING REVENUES | <u>339,034</u> |
| OPERATING EXPENSES | |
| Salaries and wages | 600,064 |
| Contract services | 22,178 |
| Materials and supplies | 424,544 |
| Other operating expenses | 55,565 |
| Depreciation expense | 12,798 |
| TOTAL OPERATING EXPENSES | <u>1,115,149</u> |
| OPERATING LOSS | <u>(776,115)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| State operating grants | 174,183 |
| Federal operating grants..... | 603,532 |
| Donated commodities | 76,325 |
| Interest revenue | 842 |
| Loss on disposal of assets..... | (5,308) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>849,574</u> |
| CHANGE IN NET ASSETS | 73,459 |
| TOTAL NET ASSETS – BEGINNING OF YEAR | <u>186,591</u> |
| TOTAL NET ASSETS – END OF YEAR | <u><u>\$ 260,050</u></u> |

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

| | ENTERPRISE FUND FOOD SERVICE |
|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from user charges..... | \$ 339,574 |
| Cash payments to employees for services..... | (439,822) |
| Cash payments for contract services | (22,178) |
| Cash payments to suppliers for goods and services..... | (346,693) |
| Cash payments for other operating expenses..... | (55,565) |
| Net Cash Used In Operating Activities | (524,684) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Nonoperating grants received..... | 617,473 |
| Net Cash Provided By Noncapital Financing Activities | 617,473 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition of capital assets | (4,984) |
| Net Cash Used In Capital and Related Financing Activities | (4,984) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest on investments..... | 842 |
| Net Cash Provided By Investing Activities | 842 |
| NET INCREASE IN CASH | 88,647 |
| CASH – BEGINNING OF YEAR | 46,702 |
| CASH – END OF YEAR | \$ 135,349 |

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

| | |
|---|-----------------------------------|
| Operating loss..... | \$ (776,115) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation..... | 12,798 |
| Commodities used | 76,325 |
| On-behalf payments received | 160,242 |
| Changes in assets and liabilities: | |
| Receivables..... | 540 |
| Inventories..... | 5,487 |
| Accounts payable..... | (3,961) |
| NET CASH USED IN OPERATING ACTIVITIES | <u><u>\$ (524,684)</u></u> |

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

- ▶ The food service fund received \$76,325 of donated commodities from the federal government.
- ▶ On-behalf payments received \$160,242.

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2005

| | <u>AGENCY FUNDS</u> |
|-----------------------------|--------------------------|
| ASSETS | |
| ASSETS | |
| Cash..... | \$ 145,421 |
| TOTAL ASSETS | <u>\$ 145,421</u> |
| LIABILITIES | |
| LIABILITIES | |
| Due to student groups | \$ 145,421 |
| TOTAL LIABILITIES | <u>\$ 145,421</u> |

See accompanying notes to the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

● **Reporting Entity**

The Butler County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Butler County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Butler County School District. In accordance with GASB Statement No. 39, the financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc., except for those funds administered as an activity in the Agency funds.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Butler County School District Finance Corporation — The Butler County Board of Education resolved to authorize the establishment of the Butler County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Butler County Board of Education also comprise the Corporation's Board of Directors.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Basis of Presentation**

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

► **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds) and to provide financial resources for debt service requirements.

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund.

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, as required by Kentucky law.

► **Proprietary Fund Types**

Enterprise Fund

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

► **Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District as an agent on behalf of others.

Agency Funds

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the District are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund, Special Revenue Fund and Capital Projects Funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

● **Investments**

Investments consist of short-term non-brokered certificates of deposit recorded at cost, which approximates fair value.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

| Description | Estimated Lives |
|----------------------------------|-----------------|
| Buildings and improvements | 25–50 years |
| Land improvements | 20 years |
| Technology equipment | 5 years |
| Vehicles | 5–10 years |
| Audio-visual equipment | 15 years |
| Food service equipment | 10–12 years |
| Furniture and fixtures | 7 years |
| Rolling stock | 15 years |
| Other | 10 years |

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

● **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 2: CASH AND INVESTMENTS

● **Deposits**

At June 30, 2005, the carrying amounts of the District's deposits were \$3,748,346 and the bank balances were \$5,204,247, all of which was covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

The carrying amounts are reflected in the financial statements as follows:

| | |
|--------------------------|----------------------------|
| Governmental funds | \$ 3,467,576 |
| Proprietary funds..... | 135,349 |
| Fiduciary funds..... | <u>145,421</u> |
| | <u>\$ 3,748,346</u> |

Investments are short-term as they can be liquidated upon demand with no penalty. The investments have a fixed rate of interest.

► *Custodial Credit Risk Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. However, the District is required by State statute that bank deposits must be secured. As of June 30, 2005, none of the District's deposits were exposed to custodial credit risk.

NOTE 3: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2005 consist of the following:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|--------------------------|
| General | Special Revenue | \$ 207,480 |
| General | Construction | <u>149,750</u> |
| | | <u>\$ 357,230</u> |

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 3: INTERFUND RECEIVABLES AND PAYABLES (Continued)

The amounts represent interfund loans between the general fund and special revenue fund and construction fund necessary to fulfill the current cash requirements of the special revenue and construction funds.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

| | Capital Cost | | | |
|---|----------------------|---------------------|-----------------------------------|----------------------|
| | Beginning Balance | Additions | Retirements/ Reclassifications | Ending Balance |
| Governmental Activities: | | | | |
| Capital assets that are not depreciated: | | | | |
| Land | \$ 319,006 | \$ 0 | \$ 2,900 | \$ 316,106 |
| Construction in progress | 424,136 | 6,395,267 | 167,623 | 6,651,780 |
| Total Nondepreciable Historical Cost | 743,142 | 6,395,267 | 170,523 | 6,967,886 |
| Capital assets that are depreciated: | | | | |
| Land improvements | 694,796 | 0 | 52,634 | 642,162 |
| Buildings and improvements | 28,900,812 | 167,623 | 413,091 | 28,655,344 |
| Technology equipment | 2,212,594 | 86,978 | 183,091 | 2,116,481 |
| Vehicles | 2,130,567 | 306,115 | 291,971 | 2,144,711 |
| General | 616,042 | 11,320 | 61,470 | 565,892 |
| Total Depreciable Historical Cost | 34,554,811 | 572,036 | 1,002,257 | 34,124,590 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 311,810 | 33,989 | 17,915 | 327,884 |
| Buildings and improvements | 5,911,042 | 706,091 | 256,297 | 6,360,836 |
| Technology equipment | 1,777,252 | 120,832 | 183,091 | 1,714,993 |
| Vehicles | 1,381,326 | 112,474 | 291,971 | 1,201,829 |
| General | 372,652 | 43,508 | 35,819 | 380,341 |
| Total Accumulated Depreciation | 9,754,082 | 1,016,894 | 785,093 | 9,985,883 |
| Total Depreciable Historical Cost, Net | 24,800,729 | (444,858) | 217,164 | 24,138,707 |
| Governmental Activities, Capital Assets, Net | \$ 25,543,871 | \$ 5,950,409 | \$ 387,687 | \$ 31,106,593 |

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 4: CAPITAL ASSETS (Continued)

| | Capital Cost | | | |
|--|-------------------|-------------------|-----------------------------------|------------------|
| | Beginning Balance | Additions | Retirements/ Reclassifications | Ending Balance |
| Business-Type Activities: | | | | |
| General | 433,879 | 4,984 | 49,383 | 389,480 |
| Less accumulated depreciation | 376,533 | 12,797 | 44,074 | 345,256 |
| Business-Type Activities, Capital Assets, Net | \$ 57,346 | \$ (7,813) | \$ 5,309 | \$ 44,224 |

Depreciation expense was charged to governmental functions as follows:

| | |
|-----------------------------------|---------------------|
| Instruction..... | \$ 766,527 |
| Student..... | 6,001 |
| Instructional staff..... | 1,519 |
| District administration..... | 65,933 |
| School administration..... | 15,461 |
| Business..... | 6,583 |
| Facilities operations | 45,511 |
| Student transportation..... | 108,643 |
| Other | 716 |
| Total Depreciation Expense | \$ 1,016,894 |

NOTE 5: GENERAL LONG-TERM OBLIGATIONS

On December 29, 2004, the District issued \$500,000 of Qualified Zone Academy Bonds (QZAB). The bonds were approved for the alternative learning center renovation project. As stated in the agreement, \$244,356 of the proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the \$500,000 bond issue. As a result, the \$500,000 QZAB are considered to be defeased and the

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 5: GENERAL LONG-TERM OBLIGATIONS (Continued)

liability for those bonds has been removed from the government-wide statement in the financial statements as an addition to bonds payable. The gain of \$237,644 will be amortized to operations over the bonds' life of 15 years using the effective straight-line method.

The original amount of each issue, the issue date and interest rates are summarized below:

| <u>Issue Date</u> | <u>Proceeds</u> | <u>Rates</u> |
|-------------------|-----------------|--------------|
| 1996 | \$ 2,510,000 | 3.80%—4.90% |
| 1996-B | 4,460,000 | 5.50%—5.55% |
| 1998 | 2,220,000 | 4.10%—4.60% |
| 2000 | 2,510,000 | 4.85%—5.60% |
| 2003 | 835,000 | 2.00%—4.10% |
| 2004-A | 174,000 | 2.85% |
| 2004-B | 4,150,000 | 2.00%—3.75% |
| 2004-C | 7,720,000 | 3.00%—5.00% |

On January 1, 2005, the District entered into a participating bond issue agreement with the Kentucky Interlocal School Transportation Association (KISTA) for the purchase of school buses. The District's portion of the debt was \$321,366. The ten-year bonds have rates ranging from 3.000% to 3.625%.

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Butler County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 5: GENERAL LONG-TERM OBLIGATIONS (Continued)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

| Year | Butler County School District | | School Facility Construction Commission | | Total Debt Service |
|-----------|----------------------------------|----------------------|--|---------------------|-----------------------|
| | Interest | Principal | Interest | Principal | |
| 2005—2006 | \$ 409,278 | \$ 550,042 | \$ 416,748 | \$ 568,603 | \$ 1,944,671 |
| 2006—2007 | 388,399 | 564,756 | 394,862 | 588,212 | 1,936,229 |
| 2007—2008 | 366,894 | 583,301 | 371,892 | 612,101 | 1,934,188 |
| 2008—2009 | 344,140 | 599,591 | 346,661 | 638,574 | 1,928,966 |
| 2009—2010 | 320,703 | 620,782 | 319,564 | 663,867 | 1,924,916 |
| 2010—2011 | 294,353 | 630,131 | 291,142 | 503,283 | 1,718,909 |
| 2011—2012 | 268,888 | 626,287 | 269,984 | 399,764 | 1,564,923 |
| 2012—2013 | 248,949 | 632,504 | 253,541 | 391,058 | 1,526,052 |
| 2013—2014 | 228,023 | 653,645 | 236,243 | 406,529 | 1,524,440 |
| 2014—2015 | 205,371 | 616,058 | 218,078 | 424,693 | 1,464,200 |
| 2015—2016 | 182,593 | 611,199 | 198,971 | 443,801 | 1,436,564 |
| 2016—2017 | 159,169 | 635,636 | 178,915 | 444,364 | 1,418,084 |
| 2017—2018 | 134,487 | 498,922 | 158,962 | 421,078 | 1,213,449 |
| 2018—2019 | 107,295 | 688,386 | 138,426 | 441,614 | 1,375,721 |
| 2019—2020 | 71,846 | 660,880 | 115,921 | 464,120 | 1,312,767 |
| 2020—2021 | 35,370 | 667,705 | 92,833 | 467,295 | 1,263,203 |
| 2021—2022 | 12,112 | 178,451 | 70,387 | 446,549 | 707,499 |
| 2022—2023 | 3,190 | 51,124 | 48,058 | 468,876 | 571,248 |
| 2023—2024 | 634 | 12,681 | 24,616 | 492,319 | 530,250 |
| | \$ 3,781,694 | \$ 10,082,081 | \$ 4,145,804 | \$ 9,286,700 | \$ 27,296,279 |

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 5: GENERAL LONG-TERM OBLIGATIONS (Continued)

Long-term liability activity for the year ended June 30, 2005 was as follows:

| | Balance July 1, 2004 | Increases | Decreases | Balance June 30, 2005 | Amounts Due Within One Year |
|---|-------------------------|-------------------|-----------------------|--------------------------|-----------------------------------|
| Governmental Activities: | | | | | |
| Bonds and notes payable: | | | | | |
| General obligation debt | \$ 20,089,990 | \$ 321,366 | \$ (1,042,575) | \$ 19,368,781 | \$ 1,118,645 |
| Less deferred issuance discounts and premiums..... | (80,199) | 0 | 5,666 | (74,533) | 0 |
| Less deferred amount on refundings..... | (431,754) | 0 | 35,979 | (395,775) | 0 |
| Deferred gain on QZAB bond..... | 0 | 237,644 | (7,943) | 229,701 | 0 |
| Total Bonds and Notes Payable | 19,578,037 | 559,010 | (1,008,873) | 19,128,174 | 1,118,645 |
| Other Liabilities: | | | | | |
| Compensated absences | 558,152 | 94,049 | (43,702) | 608,499 | 60,000 |
| Total Other Liabilities | 558,152 | 94,049 | (43,702) | 608,499 | 60,000 |
| Total Long-Term Liabilities | \$ 20,136,189 | \$ 653,059 | \$ (1,052,575) | \$ 19,736,673 | \$ 1,178,645 |

NOTE 6: PENSION PLANS

► *Plan Descriptions*

The Butler County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 6: PENSION PLANS (Continued)

Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

► *Funding Policy*

KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 8.48% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2005, 2004, and 2003 were \$180,246, \$151,595 and \$135,646, respectively, equal to the required contributions for each year. For the year ended June 30, 2005, the Commonwealth contributed \$914,062 to the KTRS for the benefit of the District's participating employees. The District's contribution to the KTRS for the year ending June 30, 2005 was \$103,234, which represents those employees covered by federal programs.

The amount recognized for revenues and expenditures/expenses for on-behalf payments relating to fringe benefits, retirement and insurance benefits for the year ended June 30, 2005 was \$2,078,029 for governmental funds and \$160,242 for proprietary funds.

NOTE 7: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 7: CONTINGENCIES (Continued)

future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 8: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 9: RISK MANAGEMENT (Continued)

any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10: EXCESS EXPENDITURES OVER APPROPRIATIONS

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

| Fund | Amount |
|--------------------|-----------|
| General..... | \$ 28,970 |
| Construction | 5,699,219 |
| SEEK..... | 13,780 |

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2005

NOTE 11: FUND TRANSFERS

Fund transfers for the year ended June 30, 2005 consist of the following:

| <u>From Fund</u> | <u>To Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|------------------|-----------------|----------------|---------------|
| General | Debt Service | Debt Service | \$ 186,973 |
| General | Special Revenue | Matching | 27,261 |
| General | Construction | Construction | 209,376 |
| FSPK | Construction | Construction | 8,287 |
| Construction | Debt Service | Debt Service | 244,356 |
| Capital Outlay | Debt Service | Debt Service | 215,508 |
| FSPK | Debt Service | Debt Service | 505,808 |

NOTE 12: SUBSEQUENT EVENTS

In August 2005, North Butler Elementary construction was completed; therefore, Fourth District Elementary and Fifth District Elementary schools will no longer be used by the District for the services that they were intended for and are planned to be declared surplus property. The fair values of these schools are estimated to be in excess of the current carrying values; therefore, an impairment has not been recognized in the accompanying financial statements.

Required Supplemental Information

BUTLER COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2005

| | BUDGETED AMOUNTS | | ACTUAL (BUDGETARY BASIS) | VARIANCES FAVORABLE (UNFAVORABLE) |
|---|------------------|--------------|--------------------------------|---|
| | ORIGINAL | FINAL | | FINAL TO ACTUAL |
| REVENUES | | | | |
| Local and intermediate sources | \$ 3,421,864 | \$ 1,680,220 | \$ 2,137,504 | \$ 457,284 |
| State programs | 8,535,624 | 8,528,471 | 8,641,894 | 113,423 |
| Federal programs..... | 2,749 | 0 | 0 | 0 |
| TOTAL REVENUES | 11,960,237 | 10,208,691 | 10,779,398 | 570,707 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction..... | 6,318,158 | 6,426,672 | 6,327,959 | 98,713 |
| Support services: | | | | |
| Student | 368,830 | 368,830 | 292,626 | 76,204 |
| Instructional staff | 248,575 | 245,671 | 260,920 | (15,249) |
| District administration | 2,072,194 | 1,966,590 | 574,822 | 1,391,768 |
| School administration | 635,074 | 635,077 | 636,577 | (1,500) |
| Business | 114,281 | 114,281 | 162,334 | (48,053) |
| Plant operations and maintenance | 1,121,519 | 1,121,519 | 1,104,442 | 17,077 |
| Student transportation | 881,561 | 838,560 | 1,164,197 | (325,637) |
| Other | 15,583 | 15,583 | 14,624 | 959 |
| Facilities acquisition and construction | 0 | 0 | 167,623 | (167,623) |
| TOTAL EXPENDITURES | 11,775,775 | 11,732,783 | 10,706,124 | 1,026,659 |

| | | | | |
|---|----------------------------|--------------------------|----------------------------|----------------------------|
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | <u>184,462</u> | <u>(1,524,092)</u> | <u>73,274</u> | <u>1,597,366</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Bond proceeds..... | 0 | 0 | 321,366 | 321,366 |
| Operating transfers | <u>(184,462)</u> | <u>(227,462)</u> | <u>(423,610)</u> | <u>(196,148)</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(184,462)</u> | <u>(227,462)</u> | <u>(102,244)</u> | <u>125,218</u> |
| NET CHANGE IN FUND BALANCE | 0 | (1,751,554) | (28,970) | 1,722,584 |
| FUND BALANCE – BEGINNING OF YEAR | <u>1,965,981</u> | <u>1,965,981</u> | <u>1,965,981</u> | <u>0</u> |
| FUND BALANCE – END OF YEAR | <u>\$ 1,965,981</u> | <u>\$ 214,427</u> | <u>\$ 1,937,011</u> | <u>\$ 1,722,584</u> |

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

| | |
|--|-----------------------------|
| Inflows/revenues: | |
| Actual amounts (budgetary basis)..... | \$ 10,779,398 |
| Differences — budget to GAAP: | |
| On-behalf payments recorded under GAAP basis not included in budget amounts..... | <u>2,078,029</u> |
| Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds | <u>\$ 12,857,427</u> |
| Outflows/expenditures: | |
| Actual amounts (budgetary basis)..... | \$ 10,706,124 |
| Differences — budget to GAAP: | |
| On-behalf payments recorded under GAAP basis not included in budget amounts..... | <u>2,078,029</u> |
| Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds | <u>\$ 12,784,153</u> |

BUTLER COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL REVENUE FUND
For the Year Ended June 30, 2005

| | BUDGETED AMOUNTS | | | VARIANCES FAVORABLE (UNFAVORABLE) |
|--|------------------|-----------|------------------------|---|
| | ORIGINAL | FINAL | ACTUAL (GAAP BASIS) | FINAL TO ACTUAL |
| REVENUES | | | | |
| Local and intermediate sources | \$ 0 | \$ 20,595 | \$ 53,438 | \$ 32,843 |
| State programs | 595,813 | 899,071 | 790,094 | (108,977) |
| Federal programs..... | 1,282,014 | 1,616,775 | 1,490,022 | (126,753) |
| TOTAL REVENUES | 1,877,827 | 2,536,441 | 2,333,554 | (202,887) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction..... | 1,295,164 | 1,681,864 | 1,570,245 | 111,619 |
| Support services: | | | | |
| Student | 165,570 | 181,735 | 186,913 | (5,178) |
| Instructional staff | 196,469 | 247,018 | 206,328 | 40,690 |
| District administration | 15,612 | 0 | 21,234 | (21,234) |
| School administration | 0 | 0 | 337 | (337) |
| Business | 10,156 | 10,464 | 10,160 | 304 |
| Plant operations and maintenance | 0 | 2 | 0 | 2 |
| Student transportation | 0 | 48,159 | 39,234 | 8,925 |
| Other | 194,856 | 327,273 | 299,165 | 28,108 |
| TOTAL EXPENDITURES | 1,877,827 | 2,496,515 | 2,333,616 | 162,899 |

| | | | | |
|---|------------------------|-------------------------|-------------------------|---------------------------|
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | <u>0</u> | <u>39,926</u> | <u>(62)</u> | <u>(39,988)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers | <u>0</u> | <u>0</u> | <u>27,261</u> | <u>27,261</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>0</u> | <u>0</u> | <u>27,261</u> | <u>27,261</u> |
| NET CHANGE IN FUND BALANCE | <u>0</u> | <u>39,926</u> | <u>27,199</u> | <u>(12,727)</u> |
| FUND BALANCE – BEGINNING OF YEAR | <u>1,382</u> | <u>1,382</u> | <u>1,382</u> | <u>0</u> |
| FUND BALANCES – END OF YEAR | <u><u>\$ 1,382</u></u> | <u><u>\$ 41,308</u></u> | <u><u>\$ 28,581</u></u> | <u><u>\$ (12,727)</u></u> |

Supplemental Information

BUTLER COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

| | SEEK FUND | FSPK FUND | DEBT SERVICE FUND | TOTAL OTHER GOVERNMENTAL FUNDS |
|--|-------------------|------------------|-------------------|--------------------------------|
| ASSETS | | | | |
| Cash | \$ 165,319 | \$ 80,228 | \$ 2,560 | \$ 248,107 |
| TOTAL ASSETS | \$ 165,319 | \$ 80,228 | \$ 2,560 | \$ 248,107 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 0 | \$ 0 | \$ 918 | \$ 918 |
| TOTAL LIABILITIES | 0 | 0 | 918 | 918 |
| FUND BALANCES | | | | |
| Reserved for: | | | | |
| SFCC | 114,577 | 0 | 0 | 114,577 |
| Debt service | 0 | 0 | 1,642 | 1,642 |
| Unreserved | 50,742 | 80,228 | 0 | 130,970 |
| TOTAL FUND BALANCES | 165,319 | 80,228 | 1,642 | 247,189 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 165,319 | \$ 80,228 | \$ 2,560 | \$ 248,107 |

BUTLER COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

| | SEEK FUND | FSPK FUND | DEBT SERVICE FUND | TOTAL OTHER GOVERNMENTAL FUNDS |
|--|-------------------|------------------|-------------------|--------------------------------|
| REVENUES | | | | |
| From local sources: | | | | |
| Taxes: | | | | |
| Property | \$ 0 | \$ 196,732 | \$ 0 | \$ 196,732 |
| Earnings on investments | 3,398 | 0 | 0 | 3,398 |
| Intergovernmental — state | 198,330 | 385,366 | 958,666 | 1,542,362 |
| TOTAL REVENUES | 201,728 | 582,098 | 958,666 | 1,742,492 |
| EXPENDITURES | | | | |
| Debt service: | | | | |
| Principal | 0 | 0 | 1,042,575 | 1,042,575 |
| Interest | 0 | 0 | 822,738 | 822,738 |
| TOTAL EXPENDITURES | 0 | 0 | 1,865,313 | 1,865,313 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 201,728 | 582,098 | (906,647) | (122,821) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Payment to refunded bond escrow account | 0 | 0 | (244,356) | (244,356) |
| Operating transfers | (215,508) | (514,095) | 1,152,645 | 423,042 |
| TOTAL OTHER FINANCING SOURCES (USES) | (215,508) | (514,095) | 908,289 | 178,686 |
| NET CHANGE IN FUND BALANCES | (13,780) | 68,003 | 1,642 | 55,865 |
| FUND BALANCES — BEGINNING OF YEAR | 179,099 | 12,225 | 0 | 191,324 |
| FUND BALANCES — END OF YEAR | \$ 165,319 | \$ 80,228 | \$ 1,642 | \$ 247,189 |

BUTLER COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF ASSETS AND LIABILITIES
 ALL SCHOOL ACTIVITY FUNDS
 ALL AGENCY FUNDS
 June 30, 2005

| | CASH JUNE 30, 2005 | DUE TO STUDENT GROUPS JUNE 30, 2005 |
|---|-----------------------|--|
| Butler County High School..... | \$ 71,208 | \$ 71,208 |
| Butler County Middle School..... | 19,675 | 19,675 |
| Fourth District Elementary School | 5,988 | 5,988 |
| Fifth District Elementary School..... | 13,551 | 13,551 |
| Morgantown Elementary School..... | 34,999 | 34,999 |
| | <u>\$ 145,421</u> | <u>\$ 145,421</u> |

BUTLER COUNTY SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
BUTLER COUNTY HIGH SCHOOL
June 30, 2005

| | CASH JUNE 30, 2005 | DUE TO STUDENT GROUPS JUNE 30, 2005 |
|---------------------------|-------------------------------------|--|
| General..... | \$ 5,889 | \$ 5,889 |
| School Concessions | 13,653 | 13,653 |
| Faculty Fund | 1,034 | 1,034 |
| Attendance | 1,407 | 1,407 |
| ROTC | 5,485 | 5,485 |
| Cheerleaders | 651 | 651 |
| Tree Scape Fund..... | 460 | 460 |
| Rocketry and Bridge | 759 | 759 |
| Speech League..... | 203 | 203 |
| Athletics | 12,711 | 12,711 |
| Football Jr. Pro | 341 | 341 |
| Boys BK Jr. Pro | 7 | 7 |
| Girls BK Jr. Pro | 472 | 472 |
| Jr. Pro Cheerleading..... | 12 | 12 |
| Chorus | 152 | 152 |
| Library Supplies | 279 | 279 |
| FCS | 5,740 | 5,740 |
| Business & Office | 265 | 265 |
| Yearbook | 4,060 | 4,060 |
| Class of 2006..... | 2,902 | 2,902 |
| FFA..... | 2,650 | 2,650 |
| FCCLA..... | 2,446 | 2,446 |
| Beta Club..... | 2,015 | 2,015 |
| SUPA..... | 1,584 | 1,584 |
| NAC | 721 | 721 |
| Foreign Language..... | 67 | 67 |
| TSA..... | 361 | 361 |
| PRIDE..... | 504 | 504 |
| FBLA..... | 34 | 34 |
| Literary Club | 129 | 129 |
| HOSA | 201 | 201 |
| Student Council | 768 | 768 |
| Project Prom | 3,246 | 3,246 |
| | \$ 71,208 | \$ 71,208 |

BUTLER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

| FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE | FEDERAL CFDA NUMBER | PASS-THROUGH NUMBER | FEDERAL EXPENDITURES |
|---|------------------------|----------------------------|-------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed-Through State Department of Education: | | | |
| School Breakfast Program | 10.553 | 57604 05 Z / 57605 05 Z | \$ 142,597 |
| National School Lunch Program | 10.555 | 57504 05 Z / 57505 02 Z | 447,285 |
| Passed-Through State Department of Agriculture: | | | |
| Food Distribution Program | 10.555 | 57504 02 Z / 57505 02 Z | 76,325 |
| Summer Feeding Program..... | 10.559 | 57404 23 Z / 56905 24 Z | 13,650 |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | 679,857 |
| U.S. DEPARTMENT OF DEFENSE | | | |
| Received Direct From Defense Finance and Accounting Service: | | | |
| NJROTC — 2005..... | 12.000 | — | 54,391 |
| TOTAL U.S. DEPARTMENT OF DEFENSE | | | 54,391 |
| U.S. DEPARTMENT OF EDUCATION | | | |
| Passed-Through State Department of Education: | | | |
| Title I — 2004 | 84.010 | 35104 01 Z | 75,270 |
| Title I — 2005 | 84.010 | 35105 01 Z | 472,818 |
| Migrant Education Basic — 2003..... | 84.011 | 35203 02 Z | 918 |
| Migrant Education Basic — 2005..... | 84.011 | 35205 02 Z | 14,450 |
| IDEA — Part B Basic Special Education — 2004 | 84.027 | 58104 02 Z | 15,662 |
| IDEA — Part B Basic Special Education — 2005 | 84.027 | 58105 02 Z | 410,831 |
| IDEA — Part B — Preschool 2004 | 84.173 | 58704 02 Z | 505 |
| IDEA — Part B — Preschool 2005 | 84.173 | 58705 02 Z | 31,949 |
| Title IV — Safe & Drug Free Schools — 2004 | 84.186A | 59004 02 Z | 4,616 |
| Title IV — Safe & Drug Free Schools — 2005 | 84.186A | 59005 02 Z | 9,574 |
| Vocational Education — Basic — 2004 | 84.048 | 46204 32 Z | 1,857 |
| Vocational Education — Title I C | 84.048 | 46204 32 Z | 1,183 |

| FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE | FEDERAL CFDA NUMBER | PASS-THROUGH NUMBER | FEDERAL EXPENDITURES |
|---|------------------------|------------------------|-------------------------|
| Vocational Education — Basic — 2005 | 84.048 | 46205 32 Z | 21,823 |
| Vocational Education — Basic — 2006 | 84.048 | 46206 32 Z | 309 |
| Title V — 2004 | 84.298 | 53304 02 Z | 389 |
| Title V — 2005 | 84.298 | 53305 02 Z | 12,595 |
| Title II — Improving Teacher Quality — 2004 | 84.367 | 71004 02 Z | 3,780 |
| Title II — Improving Teacher Quality — 2005 | 84.367 | 71005 02 Z | 154,561 |
| Title II — Part D, Educational Tech — 2003 | 84.318X | 73603 02 Z | 78 |
| Title II — Part D, Educational Tech — 2005 | 84.318X | 73605 02 Z | 14,187 |
| 21 st Century Community Learning Center..... | 84.287B | — | 48,459 |
| 21 st Century Community Learning Center..... | 84.287B | — | 74,552 |
| Passed-Through State Department for Social Services: | | | |
| Title I Neglected & Delinquent Children | 84.013 | 35205 02 Z | 13,625 |
| Passed-Through State Workforce Cabinet: | | | |
| Community Based Work Transition — 2005 | 84.126A | — | 12,000 |
| Adult Education Corrections | 84.002 | — | 4,646 |
| Adult Education Development Funds..... | 84.002 | — | 6,000 |
| Adult Education — Federal Basic | 84.002 | — | 20,617 |
| Adult Education — Professional Development | 84.002 | — | 1,666 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | 1,428,920 |
| CORPORATION FOR NATIONAL AND COMMUNITY SERVICE | | | |
| Passed-Through State Workforce Cabinet: | | | |
| Service Learning Grant | 94.004 | — | 711 |
| Service Learning Grant | 94.004 | — | 6,000 |
| TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE | | | 6,711 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 2,169,879 |

BUTLER COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Butler County School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

BUTLER COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2005

● **04-2 Grant Compliance**

During our audit of grant programs, we noted that the District did not maintain documentation of employee time and effort for those employees paid from federal programs. Per OMB Circular A-87, Attachment B, an employee whose compensation is funded solely from a single federal program must furnish a semi-annual certification that he/she has been engaged solely in activities supported by the federal program. An employee paid in part from a single federal program, and in part with funds from other revenue sources, must maintain time and effort records that document the portion of time and effort dedicated to the single federal program, and each program or other cost objective supported by other revenue sources. The employee or the supervisory official having first-hand knowledge of the work performed by the employee must sign these certifications. There are no questioned costs resulting from this noncompliance.

Management Response: The District is currently working on documentation of an employee's time and effort for those employees paid from federal programs. We are researching OMB Circular A-87 to provide a solution that meets the needs of our District and remain in compliance.

Current Status: The District's corrective action plan was implemented and no other findings were noted.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Kentucky State Committee for School District Audits
Members of the Board of Education
Butler County School District
Morgantown, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of **Butler County School District** as of and for the year ended June 30, 2005, which collectively comprise **Butler County School District's** basic financial statements and have issued our report thereon dated September 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in

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amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated September 16, 2005.

● **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditors' Contract—State Audit Requirements*.

This report is intended solely for the information and use of the members of the Butler County Board of Education, Kentucky State Committee for School Districts, management of the **Butler County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
September 16, 2005



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Butler County School District
Morgantown, Kentucky

● **Compliance**

We have audited the compliance of **Butler County School District** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We

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believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

● **Internal Control over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Butler County Board of Education, Kentucky State Committee for School Districts, management of the **Butler County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Bowling Green, Kentucky
September 16, 2005

BUTLER COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2005

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

BUTLER COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2005

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|--------------------------|---|
| 10.553 / 10.555 / 10.559 | Child Nutrition Cluster |
| 84.287 | Title IV B |

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

SECTION II — FINANCIAL STATEMENT FINDINGS

None.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.